

LASSEN COUNTY ASSESSMENT PRACTICES SURVEY

DECEMBER 2005

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December 21, 2005

TO COUNTY ASSESSORS:

LASSEN COUNTY
ASSESSMENT PRACTICES SURVEY

RAMON J. HIRSIG
Executive Director
No. 2005/076

A copy of the Lassen County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Kenneth Bunch, Lassen County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Lassen County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County Property Tax Division from July through August 2004. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Bunch and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that more than one-half of all property tax revenue is used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures of (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Lassen County Assessor's Office.

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and the Lassen County Grand Jury and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Kenneth Bunch, Lassen County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor.

In addition, pursuant to Revenue and Taxation Code¹ section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Lassen County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in Lassen County who provided information relevant to the property tax assessment program.

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.²

This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit—the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

¹ Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

² All rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office. However, it also identifies program elements that we found particularly effective and describes areas of improvement since our last assessment practices survey.

In our 2001 Lassen County Assessment Practices Survey, we made six recommendations to address problems in the assessor's assessment policies and procedures. The assessor fully implemented three of the recommended changes. Two recommendations no longer apply because of a change in BOE guidance and one recommendation was not implemented and is repeated in this report.

The statements below summarize the findings of our current survey.

- The Lassen County assessment roll value has increased more than 16 percent between fiscal years 2000-01 and 2004-05; however, staffing levels have remained constant over the same period.
- Administrative elements of the assessor's office, including appraiser certification, the exemption program, and assessment appeals program conform to statutory requirements.
- The assessor's programs for assessing changes in ownership, new construction, California Land Conservation Act property, Timberland Production Zone property, leasehold improvements, water company property, mineral property, and power plants are consistent with the requirements of property tax law.
- The assessor has effective programs for assessing business property, leased equipment, manufactured homes, aircraft, and animals.

We provide recommendations to address the issues summarized below in this survey.

- The assessor has not requested that the board of supervisors revise the disaster relief ordinance to conform to the current provisions of section 170.
- The assessor does not add the penalty or notify the auditor-controller when interest should be added to escape assessments for disallowed homeowners' exemptions.
- The assessor inappropriately requests information not required on two BOE-prescribed forms, uses rearranged forms that have not been BOE-approved, and uses one outdated form.
- The assessor does not review the assessments of properties surrounding those properties having assessments that were recently reduced to reflect a decline in value.

- The assessor does not follow BOE guidelines in determining the base year value of government-owned properties at the time of transfer.
- The assessor does not recognize possible declines in value of possessory interests based upon their decreasing stated term of possession, nor does he account for expenses to the lessor when determining the value of possessory interest assessments.
- The assessor's mandatory audit program is in arrears; and, in a multi-year audit, he incorrectly offsets audit differences for all years and enrolls the net result in the most current year.
- The assessor does not index reported costs for specialty equipment, contrary to the guidance furnished in Assessors' Handbook Section 581.
- The assessor does not add sales or use tax when initially appraising pleasure vessels.

Despite the problems noted above, we found that most properties and property types are assessed correctly. We also noted that the Lassen County Assessor has made use of modern computer technology to improve his office functions. His innovations include:

- Upgrading his mainframe server
- Providing each employee an upgraded personal computer and modern software, including access to the county's computer network and the internet
- Employing Geographic Information System (GIS) technology and related aerial photographs to aid in the appraisal of real property subject to California Land Conservation Act (CLCA) contracts.

We found no significant assessment problems as defined in Rule 371. Since Lassen County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling. Accordingly, pursuant to section 75.60, Lassen County continues to be eligible for recovery of costs associated with administering supplemental assessments.

Here is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

- RECOMMENDATION 1:** Request that the board of supervisors revise the disaster relief ordinance to conform to the current provisions of section 170. .11
- RECOMMENDATION 2:** Add penalty and interest as required by section 531.6 for disallowed homeowners' exemptions.13
- RECOMMENDATION 3:** Use only approved assessment forms.17

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RESULTS OF 2001 SURVEY

Roll Changes

We recommended the assessor apply the low-value property exemption to escape assessments only when the full value of the assessment unit meets the standards of the county's low-value property exemption. With the adoption of a low-value ordinance applicable to escape assessments (county ordinance No. 553), this recommendation no longer applies.

Disaster Relief

We recommended the assessor grant disaster relief only upon the filing of a timely application. The assessor has implemented this recommendation.

Possessory Interests

We recommended that the assessor obtain the name of the specific federal or state agency controlling the use of government-owned land. Since we found no escaped possessory interest assessments, we do not repeat this recommendation.

Equipment Valuation

We recommended the assessor use Assessors' Handbook Section 581 (AH 581) as intended. At that time, the assessor applied arbitrary minimum percents good to older equipment, contrary to the tables furnished in the AH 581. We found that although the assessor has since adopted minimum percents good based on the Marshall Valuation Service salvage tables, he does not apply indexing to the acquisition costs of certain electronic equipment as is recommended in the AH 581. Based on this finding, we have restated our recommendation to address this practice.

Leased Equipment

We recommended the assessor exclude sales tax as an element of cost when the lessee of equipment is a federal agency. The assessor has implemented this recommendation.

Audit Program

We recommended the assessor develop and maintain a formal audit program. The assessor has implemented this recommendation.

OVERVIEW OF LASSEN COUNTY

Lassen County is located approximately 220 miles northeast of Sacramento. It was organized by an act of the State Legislature on April 1, 1864. The county has a population of approximately 34,100 inhabitants, about one-half of whom live in the county seat of Susanville. Lassen County encompasses approximately 4,547 square miles. The county is bordered on the east by the State of Nevada, on the south by Plumas and Sierra counties, on the west by Shasta County, and on the north by Modoc County.

The following table illustrates the growth in size of the locally assessed roll during the past five years:³

| ROLL YEAR | TOTAL ROLL VALUE (in thousands) | INCREASE | STATEWIDE INCREASE |
|-----------|------------------------------------|----------|--------------------|
| 2004-05 | \$1,558,382 | 5.3% | 8.3% |
| 2003-04 | \$1,479,396 | 4.1% | 7.3% |
| 2002-03 | \$1,421,270 | 2.1% | 7.3% |
| 2001-02 | \$1,391,926 | 4.2% | 9.4% |
| 2000-01 | \$1,335,973 | | |

³ Data source is BOE annual reports, Table 7.

ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, the State-County Property Tax Administration Program (PTAP), appraiser certification, assessment appeals, disaster relief, assessment roll changes, low-value property exemption, exemptions, and assessment forms.

Budget and Staffing

The Lassen County assessor's office has a staff of 10 full-time employees and one part-time employee, and has remained constant over the past five years. This staffing includes the assessor, the chief appraiser, one senior real property appraiser, two real property appraisers, one auditor-appraiser, one assessment technician, and four support staff (three full-time and one part-time).

The assessor's budget has grown from \$421,395 in 2000-01 to \$546,093 for 2004-05. The following chart shows the assessor's budget over this period of time. Figures do not include PTAP funds, which are maintained in a separate budget account:

| FISCAL YEAR | GROSS BUDGET | PERCENT INCREASE |
|-------------|--------------|------------------|
| 2004-05 | \$585,881 | 10.31% |
| 2003-04 | \$531,101 | 9.24% |
| 2002-03 | \$486,170 | 7.11% |
| 2001-02 | \$453,915 | 7.72% |
| 2000-01 | \$421,395 | |

State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program, which was later entitled the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration.⁴ When this program expired June 30, 2001, it was replaced with the Property Tax Administration Grant Program, which is available to counties for fiscal years 2002-03 through 2006-07. The grant program operates in essentially the same manner as the loan program except that if a county fails to meet its contractual performance criteria, the county is not obligated to repay the grant but will be ineligible to continue receiving the grant.⁵

⁴ Chapter 914, Statutes of 1995, in effect October 16, 1995. The Property Tax Administration Loan Program expired June 30, 2001.

⁵ The PTAP program has been suspended for two years beginning with the 2005-06 California Budget.

If an eligible county elected to participate, the county and the State Department of Finance entered into a written contract, as described in section 95.31. A PTAP loan is considered repaid if the county satisfies agreed-on performance criteria set forth in the contract. The contract provides that the county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's existing funding.

For most counties, the contract provides for verification of performance to be provided to the State Department of Finance by the county auditor-controller.

Base funding for PTAP for Lassen County is \$344,384, with a base staffing of 7.5 positions. Providing the county meets this base-funding amount, the state provides additional funds in the amount of \$54,699. The assessor uses this additional funding to complete mandatory and nonmandatory audits, prepare assessment appeals, review properties experiencing a decline in value, discover escaped new construction, and audit business accounts. The PTAP also augments the assessor's staff with one auditor-appraiser position and one part-time clerical position. The county auditor has certified that the assessor's office has met its obligation each year for the supplemental funding provided by PTAP.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless they hold a valid certificate issued by the BOE. There are a total of five certified appraisers on staff, three of whom hold advanced certificates and two who have permanent certificates. We found that the assessor and his staff possess the required appraiser certificates. Additionally, we found that the auditor-appraiser performing mandatory audits meets the requirements referenced in section 670(d). The assessor does not use contract appraisers.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory provisions governing the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by Government Code section 15606, the BOE has adopted Rules 301 through 326 to regulate the assessment appeal process.

Lassen County Ordinance No. 518 provides for the creation of and defines the duties of the county's assessment appeals board. Currently, there is one appeals board consisting of three members and one alternate member appointed by the board of supervisors. All members of the assessment appeals board have completed the training required by section 1624.02. Assessment appeals are a small portion of the assessor's overall workload and hearings are generally held once each year.

Applications are received by the clerk of the assessment appeals board, reviewed and verified, and a copy is forwarded to the assessor's office. The chief appraiser assigns the appeal to the responsible appraiser. After review, the appraiser discusses the appeal with the applicant. If the applicant decides to withdraw the appeal or agree to a stipulated value, the chief appraiser drafts

a response and sends it to the taxpayer for his/her signature. Upon receipt of a signed letter, the assessor forwards the letter to the assessment appeals board for approval. If no agreement can be reached, the clerk of the board of supervisors schedules a hearing.

In the last five years, no appeal has gone unresolved for more than two years without a timely filed extension. On average, 23 appeals were filed annually from 1998-99 through 2002-03.

The following table shows the breakdown of appeal findings.

| ASSESSMENT ROLL | 2002-03 | 2001-02 | 2000-01 | 1999-00 | 1998-99 |
|--------------------------------------|---------|---------|---------|---------|---------|
| Appeals Filed | 12 | 47 | 18 | 18 | 22 |
| Appeals Carried Over From Prior Year | 7 | 11 | 27 | 16 | 0 |
| Total Appeals Workload | 19 | 58 | 45 | 34 | 22 |
| Resolution: | | | | | |
| Withdrawn | 12 | 4 | 2 | 2 | |
| Stipulation | | 45 | 27 | 2 | 6 |
| Appeals Reduced | | | 5 | 3 | |
| Appeals Upheld | | | | | |
| Appeals Increased | | | | | |
| Other Determination* | | 2 | | | |
| Total Resolved | 12 | 51 | 34 | 7 | 6 |
| To Be Carried Over** | 7 | 7 | 11 | 27 | 16 |

* Note: Includes, but not limited to late-filed appeals, applicants' failure to appear and board denied applications.

**Note: "To Be Carried Over" includes appeals with time extensions by mutual agreement of the parties.

Overall, the assessor's portion of the assessment appeal program is well administered. The staff handling appeals is experienced and well prepared. We found no problems with the assessor's assessment appeals program.

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance providing property tax relief to assesseees whose properties have been damaged or destroyed by a misfortune or calamity. The ordinance may apply to any misfortune or calamity, to a major misfortune or calamity within a region that has been declared to be in a state of disaster by the Governor, or to a misfortune or calamity that was caused by the suspension or restriction of the right to enter upon a possessory interest in state or federal government-owned land.

To qualify for disaster relief, the property must suffer a misfortune or calamity in which the amount of damage exceeds \$10,000. To obtain disaster or calamity relief, the assessee must timely file a written application with the assessor requesting reassessment of the property.

The board of supervisors approved Ordinance No. 478, on March 25, 1986, in compliance with the provisions of section 170 as it existed at that time. As of January 1, 2002, several statutory changes were made to section 170, including the following:

- The damage threshold was increased from \$5,000 to \$10,000.
- The assessor's discovery time was increased from 6 months to 12 months.
- The response time to file a claim after the assessor's notification to the taxpayer was increased from within 30 days to 60 days of the document's postmark.

In our review of the disaster relief program, we found the assessor's program reflects the recent changes in section 170. However, the county ordinance does not reflect these changes.

The assessor receives fire reports from fire departments, and regularly reviews them and newspaper articles to discover incidents of fire. Upon discovery, the assessor mails an application to the property owner. Returned applications are logged in, analyzed, and processed if accepted. If denied, property owners are notified by telephone. The following table lists the number of claims processed in recent years:

| ROLL YEAR | CALAMITY APPLICATIONS PROCESSED |
|-----------|---------------------------------|
| 2003-04 | 22 |
| 2002-03 | 9 |
| 2001-02 | 21 |
| 2000-01 | 5 |

In our 2001 survey, we recommended that the assessor grant disaster relief only upon the filing of a timely application. In our review of disaster relief records, we did not find any instances where disaster relief was granted for claims filed after the filing deadline. We found that the assessor reassessed property for disaster relief purposes only upon receipt of a properly completed, timely filed application in full compliance with section 170(d). However, there is a conflict between the official county ordinance, which is based on an outdated version of section 170, and the actual practices employed by the assessor, which are based upon current law.

RECOMMENDATION 1: Request that the board of supervisors revise the disaster relief ordinance to conform to the current provisions of section 170.

Since the enactment of the county disaster relief ordinance in 1986, the board of supervisors has not revised the ordinance to conform to changes in section 170. The ordinance does not reflect the additions of subdivisions (h) through (l) of section 170 that deal with the treatment of value upon the property's repair. Without such changes, the assessor's administration of the disaster relief program conforms to the current provisions of section 170; however, it is in conflict with the provisions authorized by the board of supervisors.

Additionally, section 3.20.020 of the county ordinance provides that "an application for reassessment shall be filed within 60 days of such misfortune or calamity." Section 170 currently provides that the assessee has up to 12 months to apply for disaster relief, which may be well past the current filing time that the county ordinance allows.

Although the assessor is correctly administering the disaster program, the county ordinance should be brought into accord with the underlying statute.

Assessment Roll Changes

The assessor must complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the assessment roll to the auditor, the roll may not be changed except as authorized by statute. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed or was underassessed, for any reason, on the original roll. A correction is any type of authorized change to an existing assessment except for an underassessment caused by an error or omission of the assessee.

The following table shows the number of roll changes processed in Lassen County during recent years:

| FISCAL YEAR | SECURED ROLL CHANGES | TOTAL | UNSECURED ROLL CHANGES | TOTAL |
|--------------------|-----------------------------|---------------|-------------------------------|---------------|
| 2003-04 | 184 | -\$9,440,495 | 64 | -\$4,364,256 |
| 2002-03 | 223 | -\$25,995,648 | 89 | -\$9,663,572 |
| 2001-02 | 274 | -\$22,633,335 | 167 | -\$10,926,729 |
| 2000-01 | 334 | -\$33,355,394 | 209 | -\$14,066,501 |

In our 2001 survey, we recommended the assessor apply the low-value property exemption to escape assessments only when the full value of the assessment unit meets the limitation of the county's low-value property exemption. Effective January 1, 2003, section 531.9 allows a county board of supervisors to prohibit an assessor from making an escape assessment where the amount of taxes due would be less than the cost of assessing and collecting the taxes. The Lassen County Board of Supervisors adopted Ordinance No. 553 on February 11, 2003, pursuant to section 531.9, prohibiting the assessor from making escape assessments of \$3,000 or less. Therefore, this recommendation no longer applies.

Discovery and Processing

The assessor discovers possible assessment roll changes through audits, taxpayer inquiries, and other means.

Any staff member may initiate assessment roll changes when such changes are applicable to their assigned work area. The chief appraiser reviews all assessment roll changes involving valuation changes and the assessor reviews and signs all assessment roll changes. Appraisers note assessment roll changes on property records.

We reviewed the assessor's roll change procedures and found the assessor is generally processing roll changes correctly. The assessor adds escape assessments timely, mails the *Notice of Proposed Escape Assessment* at least 10 days prior to enrolling the escape, and mails the *Notice of Enrollment of Escaped Assessment* immediately after enrollment of the escape. Further, the assessor complies with the requirements of the statute of limitations for escape roll corrections.

However, there is one area of concern.

RECOMMENDATION 2: Add penalty and interest as required by section 531.6 for disallowed homeowners' exemptions.

We found a number of escape assessments attributed to homeowners' exemptions that were incorrectly allowed due to a claimant's error. However, the assessor's documentation to the auditor only indicates that the exemption was incorrectly allowed, not that the error was the result of a claimant's error. The assessor did not add the penalty called for by section 504 or advise the auditor to add the interest provided for in section 506.

Section 531.6 provides in part, that "if a homeowners' exemption is incorrectly allowed, an escape assessment...with interest...shall be made, except that where the exemption was allowed as the result of assessor's error, the amount of the interest shall be forgiven." Section 531.6 further provides that, "if the exemption was incorrectly allowed because of erroneous or incorrect information provided by the claimant with knowledge...or because the claimant failed to notify the assessor in a timely manner that the property was no longer eligible for exemption, the penalty provided in section 504 shall be added to the assessment."

Because section 531.6 requires interest and penalty when an assessee's error causes the homeowners' exemption to be erroneously granted, the assessor must add the penalty to the roll and notify the auditor to apply interest as well.

Low-Value Property Exemption

Section 155.20 authorizes a county board of supervisors to exempt all real property with a base year value, and personal property with a full value, so low that the total taxes, special assessments, and applicable subventions on the property would be less than the assessment and collection costs if the property were not exempt.

Section 155.20(b)(1) provides that a county board of supervisors may not exempt property with a total base year value or full value of more than \$5,000, or more than \$50,000 in the case of certain possessory interests. A board of supervisors must adopt a low-value property exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

On October 10, 2000, the Lassen County Board of Supervisors adopted Resolution No. 00-061. This resolution exempts from taxation all real property on the unsecured roll having a total base year value of \$5,000 or less, and all personal property and fixtures on the secured and unsecured rolls having a total full value of \$5,000 or less. It also exempts all possessory interests arising from the private use of a publicly owned fairground, convention facility, or cultural facility having a total base year value of \$50,000 or less. This resolution became effective January 1, 2001, and will remain effective until revised or rescinded.

The assessor's current assessment practices are in compliance with the county's low-value property exemption resolution.

In our 2001 survey, we recommended the assessor apply the low-value property exemption to escape assessments only when the full value of the entire appraisal unit met the value threshold established by the resolution. On February 11, 2003, the board of supervisors adopted Ordinance No. 533, which exempts escape assessments of \$3,000 or less from taxation; therefore, our prior recommendation is no longer applicable.

Exemptions

Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f), of the California Constitution. This constitutional provision, implemented by section 206 of the Revenue and Taxation Code, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking also is exempt, under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1.

Article XIII, section 4(b), authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes owned or held in trust by a corporation or other entity. The corporation or entity, however, must meet the following requirements: (1) it must be organized and operated for those purposes; (2) it must be nonprofit; and (3) no part of its net earnings can inure to the benefit of any private shareholder or individual. The Legislature has implemented this constitutional authorization in section 207 of the Revenue and Taxation Code, which exempts property owned by a church and used exclusively for religious worship and school purposes.

There have been no church exemption claims filed in Lassen County for the past five years. Instead, religious exemptions are filed for all qualifying organizations.

The following table represents the number of religious exemptions and exempted values in recent years:

| ROLL YEAR | NUMBER OF EXEMPTIONS | EXEMPT ASSESSED VALUE |
|-----------|----------------------|-----------------------|
| 2004-05 | 47 | \$10,965,319 |
| 2003-04 | 46 | \$10,722,180 |
| 2002-03 | 47 | \$10,314,523 |
| 2001-02 | 46 | \$9,936,649 |
| 2000-01 | 45 | \$9,583,025 |

Our review of the assessor's religious exemption program showed that the assessor adheres closely to statutory filing requirements. If a claimant fails to return form BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*, the assessor may contact the claimant by telephone to obtain the necessary documentation; or, the appraiser responsible for the geographical area in which the claimed property is located may field inspect the property to verify continued eligibility for the religious exemption.

Overall, the assessor maintains an effective program for administering the religious exemption.

Welfare Exemption

The welfare exemption from local property taxation is available for property owned and used exclusively for qualifying religious, hospital, scientific, or charitable purposes by organizations formed and operated exclusively for those purposes. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. Effective January 1, 2004, the BOE became responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing *Organizational Clearance Certificates* to qualified nonprofit organizations. And, the assessor became responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid *Organizational Clearance Certificate* issued by the BOE. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding the claimant's *Organizational Clearance Certificate* issued by the BOE.

The following table summarizes welfare exemptions granted on the local roll in recent years:

| ROLL YEAR | NUMBER OF EXEMPTIONS | EXEMPT ASSESSED VALUE |
|-----------|----------------------|-----------------------|
| 2004-05 | 38 | \$30,832,357 |
| 2003-04 | 37 | \$29,885,450 |
| 2002-03 | 27 | \$7,468,281 |
| 2001-02 | 34 | \$14,114,996 |
| 2000-01 | 31 | \$7,180,779 |

We reviewed a variety of welfare exemption claims on file at the assessor's office, concentrating on claims that contained the following findings:

- First-time filings (new claims);
- "Not been met" for any reason (i.e., a property did not qualify for an exemption and the claim was denied);
- Late filed claims; and,
- Midyear acquisitions eligible for cancellation or proration of taxes pursuant to section 271.

Some of the specific property types we reviewed included the following:

- Hospitals;
- Reasonably necessary staff housing, including parsonages;
- Land conservation organizations; and,
- Rental housing for the elderly.

We found no problems with the assessor's exemption program.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation.⁶ For the 2004 lien date, the BOE prescribed 75 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor has the option to change the appearance (size, color, etc.) of a prescribed form but cannot modify, add to, or delete from the specific language on a prescribed form. The assessor may also rearrange information on a form provided that the assessor submits such a form to the

⁶ Also sections 480(b), 480.2(b), 480.4, and Rules 101 and 171.

BOE for review and approval. Assessors may also use locally developed forms to assist them in their assessment duties.

The BOE annually sends three forms checklists to assessors for (1) property statements, (2) exemption forms, and (3) miscellaneous forms. Assessors are asked to indicate on the checklists which forms they will use in the succeeding assessment year and to return the checklists to the BOE by October 15 in the case of property statements and miscellaneous forms and by December 1 in the case of exemption forms. By February 10, assessors are also required to submit to the BOE the final prints (versions) of all BOE-prescribed forms they will use in the following year.

The assessor is not using assessment forms in the prescribed manner.

RECOMMENDATION 3: Use only approved assessment forms.

The assessor uses 10 unapproved rearranged BOE-prescribed forms. Rules 101 and 171 provide that the assessor may rearrange BOE-prescribed forms subject to BOE approval, but may not add or delete any part of the form. The Lassen County Assessor has added language to nine forms and continues to use them, although the BOE notified him that these forms were not approved. This practice is contrary to both regulation and statute.

In addition, the assessor makes available to the public one form that is outdated. Using forms that are outdated or obsolete may lead to incorrect application of the underlying property tax law and cause erroneous assessments.

ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following elements:

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as lands subject to California Land Conservation Act contracts, taxable government-owned lands, and lands in Timberland Production Zones.

Unless there is a change in ownership or new construction, article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value factored at no more than 2 percent per year for inflation.

Change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from change in ownership for property tax purposes.

Section 110.1 requires the assessor to establish a base year value for real property upon a change in ownership, based on the property's fair market value on the date of change in ownership.

Document Processing

The assessor processed approximately 2,000 to 2,600 recorded documents annually in three recent calendar years. The table below shows numbers of deeds reviewed, resulting changes in ownership, and parcels affected:

| CALENDAR YEAR | DEEDS PROCESSED | CHANGES IN OWNERSHIP | PARCELS AFFECTED |
|---------------|-----------------|----------------------|------------------|
| 2003 | 2,615 | 1,419 | 1,858 |
| 2002 | 2,293 | 1,339 | 1,738 |
| 2001 | 1,971 | 1,265 | 1,618 |

The assessor's excellent working relationship with the county recorder enables the assessor to obtain all copies of recorded documents. According to staff in both the assessor's and recorder's offices, a *Preliminary Change of Ownership Report* (PCOR), Form BOE-502-A, accompanies almost all deeds. In instances where a PCOR is not filed, the recorder's office charges a \$20

nonfiling fee. The PCOR forms are available at the front counters in both the assessor's and the recorder's offices.

It is the assessor's policy to send a *Change of Ownership Statement* (COS), Form BOE-502-AH, to the transferee when no PCOR is provided along with the deed. The assessor indicated COS forms are almost always returned timely and the need to apply the section 482 penalty is rare.

After obtaining recorded documents from the recorder's office, the cadastral drafter matches PCORs with deeds and identifies affected properties by their legal descriptions. The cadastral drafter determines if the recorded transfer is a change in ownership requiring reappraisal. Support staff retrieve the appropriate property file, attach the recorded documents, and forward the file to the appraisal staff for valuation.

When transfers involve partial interests, the cadastral drafter enters the reappraisable percentages on the deed, and appraisers note the appropriate base years on the property record. The administrative assistant enters the reappraisable percentages in the "et al" section of the database. The administrative assistant also updates the roll based on appraisal results. Deeds for nonappraisable events are filed in binders stored in the assessor's office. Deeds and PCOR copies involving changes in ownership are filed in property record folders.

Although there is no specific program designed to identify changes in ownership brought about by the death of a property owner, the cadastral draftsman indicated several means of finding these changes in ownership. The draftsman reviews obituaries, is notified by attorneys, reviews court lists in probate cases, assists heirs at the public counter, reviews corporate change in ownership notifications provided by the BOE, and works with a probate officer in the county to obtain this information.

Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 interprets and clarifies section 64, providing examples of transactions that either do or do not constitute a change in entity control and hence either do or do not constitute a corresponding change in ownership of the real property owned by the entity. Discovery of these types of changes in ownership is difficult for assessors because ordinarily there is no recorded notice of the real property transfer.

To help assessors, the BOE's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide specific information about the real property involved—for example, the county of location, the assessor's parcel number, etc. Because of the limited data provided by many entities, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

When the LEOP listing is received from the BOE, the cadastral drafter reviews the list, identifies the parcels, and with the assessor's assistance, determines whether the changes in ownership are applicable to Lassen County. We found that the assessor processes LEOP notices properly and promptly revalues parcels that have undergone a change of ownership.

Section 63.1 Exclusion

Section 63.1 excludes from the definition of change in ownership the purchase or transfer (on or after November 6, 1986) of the principal residence and the first \$1 million of other real property between parents and children when a claim is filed timely. Subsequent amendments to section 63.1 also exclude certain transfers from grandparents to their grandchildren.

The following table presents information on section 63.1 transfers processed by the assessor in recent years:

| ROLL YEAR | PROPERTIES TRANSFERRED | TOTAL VALUE TRANSFERRED | PRINCIPAL RESIDENCES TRANSFERRED | TOTAL VALUE TRANSFERRED |
|------------------|-------------------------------|--------------------------------|---|--------------------------------|
| 2003-04 | 220 | \$8,324,237 | 53 | \$2,787,151 |
| 2002-03 | 256 | \$9,050,981 | 49 | \$2,978,770 |
| 2001-02 | 251 | \$7,210,396 | 50 | \$1,703,582 |
| 2000-01 | 242 | \$5,703,507 | 37 | \$1,542,964 |
| 1999-00 | 221 | \$6,212,286 | 40 | \$2,726,809 |

When the assessor discovers a change in ownership caused by the death of a property owner, he sends a section 63.1 claim if warranted. The cadastral drafter maintains a list of all claimants granted the section 63.1 exclusion. She also identifies claims granted for receipt of other than a principal residence, and sends quarterly reports to the BOE for these types of exclusions. We examined several section 63.1 claims and reports of transfers of properties other than the transferor's principal residence. We found the assessor correctly processes claims and tracks amounts claimed for transfers of properties other than a principal residence. The assessor verifies that claimants do not exceed the statutory \$1 million limit.

Section 69.5 Exclusion

Section 69.5 excludes from the definition of change in ownership transfers of the base year value of a principal residence to a replacement dwelling of equal or lesser value and located within the same county by any person over the age of 55 years or any severely and permanently disabled person. The replacement dwelling must be purchased or newly constructed within two years of the sale of the original property and the claim must be filed timely.

The assessor processed only a few claims for the section 69.5 exclusion during the previous five years. We found the assessor correctly denied the section 69.5 exclusion when claimants did not meet statutory requirements. We also found the assessor keeps records of accepted claims, including verification of claimant's age and sale prices of original and replacement residences.

Change in Ownership Appraisals

We examined property records for transferred parcels to determine if the assessor correctly values properties with improvement bonds, properties with long term leases, and properties in homogeneous neighborhoods where changes in ownership may not require field review.

It is the assessor's practice not to add value for improvement bonds. The assessor contends that current improvement bonds in Lassen County are small and a review of market data indicates no differences in sale prices between properties with and without improvement bond balances. Our review confirmed that bond balances are not added to sale prices of transferred properties.

The assessor does not have a direct enrollment program in homogeneous areas. Appraisers work each change in ownership. However, since appraisers work changes in ownership in assigned areas and are very familiar with sale prices and conditions in their neighborhoods, they are able to reduce the fieldwork when working changes in ownership.

We found the assessor's change in ownership program is in compliance with statutory requirements and make no recommendations for this program.

New Construction

Section 71 requires the assessor to determine the full cash value of newly constructed real property as of its date of completion, or on each lien date while construction is in progress. When the assessor appraises completed new construction at full cash value, a new base year value is created for the newly constructed portion. Clarification of the statutory provisions for defining and valuing new construction is found in Rule 463, and practical guidance is found in Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6.

The assessor discovers most new construction activity from building permits. For the 2003-04 roll year, he received a total of 1,419 permits from the two permit-issuing agencies, the City of Susanville and the Lassen County Department of Community Development (Building Division), on a weekly basis. Other discovery methods include newspaper articles, business property statements, the local multiple listing service, and field canvassing. The following table illustrates the assessor's building permit activity in recent years:

| ROLL YEAR | TOTAL PERMITS | PERMITS CULLED | PERMITS WORKED |
|-----------|---------------|----------------|----------------|
| 2003-04 | 1,419 | 722 | 697 |
| 2002-03 | 1,186 | 595 | 591 |
| 2001-02 | 1,066 | 536 | 530 |
| 2000-01 | 1,114 | 596 | 518 |
| 1999-00 | 1,096 | 523 | 573 |

Processing

An office assistant reviews and screens all permits received from the issuing agencies. Permits that represent nonassessable new construction are sent directly to the appraisers for review. These include re-roofing, replacement water heaters, temporary power poles, and other maintenance and repair items. The remaining permits are keyed into the computer system and forwarded to the appraisers to work.

The assessor sends cost questionnaires to taxpayers as needed to obtain new construction information. Permits for signs are given to the auditor-appraiser. Permits for commercial or industrial properties are given to the senior appraiser who is responsible for all commercial and industrial properties in the county. He reviews these building permits for newly constructed leasehold improvements. If there are leasehold improvements, he consults with the auditor-appraiser to determine if the improvement should be assessed as real property or business property.

Valuation

For valuation of residential, rural, and agricultural new construction the assessor uses Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), and the comparative sales approach. New construction of commercial and industrial properties is valued using the income approach, along with cost data from BOE handbooks and *Marshall Valuation Service*.

We found no problems in our review of the assessor's new construction program.

Declines in Value

Section 51 requires the assessor to enroll on the lien date an assessment that is the lesser of a property's factored base year value (FBYV) its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its factored base year value on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its factored base year value, then the assessor must enroll the factored base year value. (Assessors' Handbook Section 501, *Basic Appraisal*, January 2002, p.140.)

The assessor enrolled approximately 560 properties at less than factored base year value (FBYV) for the 2004-05 roll. This figure represents a reduction from the number enrolled for the prior year, as the full cash values of most properties in the county increased significantly in 2003.

Many of the properties enrolled at less than FBV for the 2004-05 roll are vacant residential sites located in relatively remote areas of the county.

To track trends in property values in his county, the assessor annually compiles a list of properties that have sold more than once within the last few years. He relies on this study, along with taxpayer requests for value reviews and his appraisal staff's knowledge of property values in their assigned areas, to identify neighborhoods or property types where the full cash value may have fallen below FBV.

In general, when estimating the full cash value of an income-producing property to determine if it may have declined below its FBV, the assessor uses the income approach. He relies on the comparative sales approach to estimate the full cash value of other types of property. Once the assessor has enrolled a full cash value that is less than a property's FBV, he annually estimates that property's current full cash value and enrolls the lower of that value or the appropriate FBV. The methodology he utilized to arrive at his estimate of full cash value is generally well documented.

Although the assessor diligently processes properties already identified as having declining values, he should be more proactive about recognizing other properties experiencing losses in value.

RECOMMENDATION 4: Review the assessments of properties surrounding those properties having assessments recently reduced for decline in value.

There are tracts consisting of 10-to-40 acre parcels, most of which are vacant, located in the northeast portion of Lassen County. The assessor enrolled some parcels in these tracts at full cash values that were less than their FBVs, but also enrolled comparable parcels in the same tracts at the FBVs which appear higher than their full cash values.

Section 51(a) states that for each lien date after the lien date in which a base year value is established, a property's taxable value shall be the lesser of its factored base year value or its full cash value.

The assessor's practice of enrolling the current full cash value of some properties while enrolling significantly higher FBVs for comparable properties represents inequitable taxation. When the assessor discovers that the full cash value of a property has declined below its FBV, he should review the assessed values of comparable properties in the same neighborhood to ensure that none are assessed in excess of full cash value.

California Land Conservation Act Property

Pursuant to the California Land Conservation Act (CLCA) of 1965, agricultural preserves may be established by a city or county for the purpose of identifying areas within which the city or county will enter into agricultural preserve contracts with property owners.

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses, e.g., hunting rights and communications facilities). Although such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

Sections 421 through 430.5 prescribe the method of assessment for land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides BOE-approved guidance for the appraisal of these properties.

For the 2004-05 tax roll, Lassen County had approximately 314,000 acres encumbered by CLCA contracts, including 19,500 acres restricted under Farmland Security Zone (FSZ) contracts. The total assessed value for CLCA and FSZ land and living improvements for 2004-05 was approximately \$51.7 million.

Most of the rural property in Lassen County consists of rangeland and timberland. The bulk of the agricultural revenue generated in Lassen County is derived from hay, livestock, and harvested timber.

The valuation of CLCA properties in Lassen County is the responsibility of the chief appraiser. A computer program calculates restricted values for CLCA land. The capitalization rate is updated annually. Prices, production, compatible use income, and rents are updated in the computer system based on information reported on CLCA questionnaires, which are mailed periodically. The computer program compares the restricted value to the factored base year value and enrolls the lower value. The appraiser compares the computer-generated value to the current market value to ensure the lowest value is enrolled. The FSZ properties are valued according to section 423.4, which provides that land subject to a Farmland Security Zone contract (a more restrictive form of the CLCA contract) shall be assessed at 65 percent of the lower of the land's restricted section 423 value or its factored base year value. Nonrenewal properties are valued according to section 426.

Homesites

Section 428 provides that the restricted valuation standard for CLCA land does not apply to residences or the site of a residence. AH 521 provides that even though it might be highly unlikely or impossible for the homesite to actually be bought and sold in the marketplace, the homesite must be valued as though it were a separate appraisal unit and traded in that manner.⁷ In other words, the homesite must be valued at the lesser of the factored base year value or the fair market value of a comparable homesite. We found that this is the assessor's policy and practice.

⁷ Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (October 2003), page II-51.

Our review of homesites located on CLCA and FSZ properties indicated that they are valued properly according to section 428.

Capitalization Rates

Section 423(b) prescribes the composition of the capitalization rate to be used in determining CLCA-restricted land values. It requires that the capitalization rate shall be the sum of the following components:

- An interest component annually determined and announced by the BOE;
- A risk component based on the location and characteristics of the land, the crops to be grown thereon and the provisions of any lease or rental agreement to which the land is subject;
- A component for property taxes; and
- A component for amortization of any investment in perennials over their estimated economic life when the total income from land and perennials other than timber exceeds the yield from other typical crops grown in the area.

Lassen County has suffered extreme drought conditions in recent years. After carefully considering the effects of the drought and the limited use of the land for either dry grazing or hay, the assessor raised the risk component of the capitalization rate to 1.25 percent.

We found Lassen County's agricultural preserve program to be well administered and in compliance with the Revenue and Taxation Code.

Taxable Government-Owned Property

Article XIII, section 3 of the California Constitution exempts from property taxation any property owned by local governments, except as provided in section 11. Section 11 of article XIII of the California Constitution provides that land, and the improvements thereon, located outside a local government's or local government agency's boundaries are taxable if the property was taxable at the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable.

In Lassen County, there were 40 taxable government-owned parcels on the 2004-05 assessment roll with a total assessed value of approximately \$2.3 million.

The assessor determines if government-owned properties are taxable, at the time of government acquisition, by comparing tax-rate area maps to the county's list of government agencies located within each tax-rate area. The chief appraiser values taxable government-owned properties annually at the lowest of either (1) the 1967 assessed value multiplied by a factor annually supplied by the BOE, (2) its adjusted base year value, or (3) the current fair market value.

We reviewed the appraisals of all 40 taxable government-owned parcels of land. The assessor valued most properties correctly; however, we did note one incorrect procedure.

RECOMMENDATION 5: Establish base year values for taxable government-owned properties according to BOE guidelines.

The assessor incorrectly establishes the base year value of taxable government-owned properties at the time of acquisition based solely on the current market value. BOE guidelines set forth in LTA 2000/037, *Guidelines for the Assessment of Taxable Government-Owned Properties*, dated June 23, 2000, provide that base year values for taxable government-owned properties acquired after March 1, 1975 are established at either the lower of current fair market value or the restricted value as of the date of change in ownership. In subsequent years, the base year value is to be adjusted for inflation by the California Consumer Price Index, like property subject to article XIII A. Factored base year values determined in the BOE recommended manner will generally be lower than either the current market value or the restricted value.

The assessor's practice has resulted in overassessments of taxable government-owned properties because, in most cases, at the time of transfer, the restricted value was lower than the market value.

Timberland Production Zone Property

Lands zoned "Timberland Production Zone" (TPZ) are valued in accordance with special TPZ site classifications; the valuation of such lands excludes the value of any standing timber. The annual value of a TPZ property is determined by its appropriate per-acre site value (section 434.5) plus the lower of the current market value or the factored base year value of any compatible, nonexclusive uses of the property (section 435). Assuming that TPZ lands are not also under CLCA contract, the annual taxable value of TPZ lands is the lowest of (1) TPZ value, (2) current market value, or (3) factored base year value.

The special valuation methods for TPZ lands do not apply to structures on TPZ lands or to reasonable sites for such structures. In other words, structures and the sites directly related to those structures are assessed as all other real property.

Lassen County has 1,271 TPZ parcels comprising 312,611 acres. For the 2004-05 roll, the total assessed value of TPZ lands was \$22,663,645.

Our review of 21 randomly selected records showed that the assessor properly follows the BOE's schedule of per-acre values for different site classes of TPZ land. The assessor developed a computer program that updates TPZ values annually based on the site class values provided by the BOE. There are no TPZ parcels in rezoning status pursuant to Government Code section 51120, two TPZ parcels are in nonrenewal status, and all of the land zoned as TPZ is identified on the assessment roll with the notation "Timberland Production Zone" in conformance with section 433.

The assessor accurately identifies and assesses improvements and compatible uses on TPZ properties at the lower of factored base year or current market value. He correctly issues

supplemental assessments for improvements and unrestricted portions of TPZ land when there is a change in ownership.

Our review of TPZ lands in Lassen County indicates that the assessor is in compliance with all applicable statutes.

Possessory Interests

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly owned property is based on the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.

For the 2004-05 roll year, the assessor enrolled 290 taxable possessory interests (PIs) with a total assessed value of \$18,191,403. The majority of these PIs are created by leases on United States Forest Service (USFS) land for private cabins or grazing.

To discover PIs and to update his files, the assessor annually requests that all government agencies owning property in the county submit a property usage report. His appraisal staff also attempts to discover PIs by periodically inspecting government-owned property.

Although the assessor's discovery efforts are effective, we identified two areas for improvement in his valuation of possessory interests.

RECOMMENDATION 6: Revise possessory interest assessment practices by
(1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value as required by section 51, and (2) using net income to the lessor.

Periodically review all taxable possessory interests with stated terms of possession for declines in value as required by section 51.

We found that, for lien dates subsequent to the initial base year, the assessor does not determine the market value of a possessory interest with a stated term of possession. Instead, he enrolls the factored base year value until the contract term of possession expires or there is a change in ownership.

Section 51 requires the assessor to assess a possessory interest at the lesser of its base year value (adjusted annually for inflation by no more than 2 percent) or its current fair market value, taking into consideration any reductions in value due to damage, depreciation, or any other factors causing a decline in value. In determining the current fair market value of a possessory interest with a stated term of possession, Rule 21 provides that the stated term of possession is presumed to be the reasonably anticipated term of possession unless there is clear and convincing evidence that the lessor and lessee anticipate a different term. Rule 21 also provides that the "stated term

of possession" for a taxable possessory interest is the remaining period of possession, which may have a material effect on the current fair market value of the interest.

For this reason, the assessor must estimate the market value of a possessory interest as of the lien date (based on the stated term of possession), compare this value with the factored base year value, and enroll the lower of the two values. Though not required to reappraise all properties each year, the assessor should develop a program to periodically review the assessments of possessory interests with a stated term of possession to ensure that declines in value of possessory interests are consistently recognized.

Failing to assess a possessory interest using the stated term of possession may overstate its taxable value.

Use net income to the lessor.

The assessor values most PIs using the direct method of the income approach. However, when the assessor employs this method, he does not deduct expenses paid by the lessor from the income before discounting the income stream into an indication of value.

Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests* (December 2002), provides that, in the direct method of the income approach, it is appropriate for the appraiser to estimate the value of the PI by discounting either the estimated economic rent less allowed expenses paid by the public owner, or that portion of the estimated future net operating income attributable to the PI.

A public owner will always incur some expense leasing property to a private party. In the case of USFS leases of cabin sites and grazing land, the USFS may only incur a nominal management expense. However, leases of other types of property, such as government-owned buildings, may require the lessor to pay for such items as building maintenance, insurance, and/or some utilities. When lease payments are based on a percentage of gross revenue, the lessor may also incur the expense of auditing the reported income figures.

By valuing PIs based on gross income rather than net income to the lessor, the assessor is overassessing these interests.

Leasehold Improvements

Leasehold improvements are all improvements or additions to leased property that have been made by the tenant or lessee. Such improvements can be secured to the real property or assessed to the lessee on the unsecured assessment roll.

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over a period of time, they may add and remove improvements that may result in a changed use of the property. These changes must, by law, be reflected in the property's assessment if they qualify as new construction.

The most common sources for the discovery of leasehold improvements are business property statements and building permits. Schedule B of Form BOE-571-L, *Business Property Statement*, contains information regarding real estate related assets owned by a tenant at the rented location of the business enterprise. Tenants are required to report on Schedule B costs they incurred for construction, remodeling, or alterations to their rented or leased premises.

The auditor-appraiser in the assessor's office reviews costs reported on Schedule B to identify assessable tenant improvements. The auditor-appraiser codes business property files with potential leasehold improvements and forwards them to the real property appraisers for review along with a copy of the business property statements. The coding is used as a tracking method for all files with new tenant improvements. After review and value determination of any secured improvement, the real property appraiser returns the file to the auditor-appraiser for assessment of any unsecured improvement.

We reviewed business property statements and real property records indicating tenant improvements. We checked for (1) reported costs and descriptions, (2) proper identification of tenant improvements by the auditor-appraiser, (3) coordination between the auditor-appraiser and the real property appraiser to ensure proper assessment, and (4) proper assessment of tenant improvements. We determined that information reported on the business property statements pertaining to real property was properly transmitted to the real property appraisers and processed in a timely manner. Leasehold improvements were properly documented and valued, and there were no double assessments or escapes. In addition, we found that the assessor properly levies supplemental assessments for leasehold improvements.

Water Company Property

Taxable water company property may include the property of private water companies, mutual water companies, and some property of government-owned water systems. Each type of water company property presents different assessment issues.

Municipal Water Systems

Article XIII, section 3(b) of the Constitution of California exempts from taxation property owned by a local government and located within its boundaries. Such property includes both property owned by city water departments and located within city limits and property owned by water districts and located within district boundaries. When a local government entity owns property located outside of the government agency or district's boundaries, this exemption does not apply. We identified several parcels owned by the City of Susanville Municipal Energy Corporation and located outside the city boundaries. In each instance the parcels were annually valued at the lowest of three approaches to value for taxable government-owned properties.

We found the parcels owned by the municipal water systems located within the city limits or district boundaries were correctly exempted from taxation under article XIII, section 3(b) of the California Constitution.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost primarily for its stockholders or members. When incorporated, the association can enter into contracts, incur obligations, own property, and issue stock. However, if unincorporated, it can do these things only in the names of the members. Corporations organized for mutual water company purposes are not subject to regulation by the CPUC unless they deliver water for compensation to persons other than stockholders and members.

We identified two mutual water companies in Lassen County. Neither company delivers water to any outside entities for profit. We found that the value of the mutual water company property was correctly reflected in the assessments of the parcels served by the water system.

Private Water Companies Regulated by the CPUC

Private water companies are privately owned utilities in business to earn a profit from the sale of water. This type of water company is subject to regulation by the CPUC and must submit annual reports to the CPUC. The CPUC regulates the rates charged by private water companies, limiting profits to a return on the company's unamortized investment in plant and equipment. Because the earning ability of a regulated private water company is tied to this "rate base," as it is known, the current market value of water company properties may be adversely affected by this restriction on earning capacity. The assessor should determine both the current market values and the factored base year values of such property and enroll the lower of the two as the assessed value (Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights*, Part I, p. 14).

We found that neither the assessor nor the CPUC have had the cooperation of the owner of the one regulated private water company in Lassen County, despite repeated documented attempts by both agencies. As a result of the taxpayer's lack of responsiveness, the assessor has considered only the factored base year value for the valuation of this water company.

Private Water Systems Not Regulated by the CPUC

Unregulated private water systems are similar to regulated water companies in that they are usually owned by individuals or corporations and are operated on a for profit basis to supply water to commercial developments such as manufactured home parks, resorts, campgrounds, etc. However, they do not sell water for profit to customers in the same manner as a regulated water company.

There are 46 private water systems within Lassen County. We reviewed the assessments of several of these properties and found that the assessor correctly values these water systems.

Mineral Property

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three property tax rules that apply specifically to mineral properties: Rule 468, *Oil and Gas Producing*

Properties, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties.

There were no recommendations regarding mining properties in our 2001 survey and assessment practices have not changed. Many of the mining properties have slowed or ceased operation due to a decreased demand for construction material in the area.

Power Plants

Lassen County has several types of power plants; biomass, cogeneration, hydroelectric, and geothermal. These properties are reviewed and appraised by the assessor using the generally accepted appraisal principals applied to industrial properties. Only the geothermal properties have a specific property tax rule, Rule 473, that dictates special handling of the appraisals and base year values. We found no problem in the assessment of these properties.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor's program for assessing personal property and fixtures includes the following major elements:

- Discovery and classification of taxable personal property and fixtures.
- Mailing and processing of annual property statements and questionnaires.
- Annual revaluation of taxable personal property and fixtures.
- Auditing taxpayers whose assessments are based on information provided in property statements.

The assessor's staff assigned to the business property program consists of one auditor-appraiser and one clerical staff. In this section of the survey report, we review the assessor's audit, business property statement processing, business property valuation, and leased equipment discovery and assessment programs, and the assessment of manufactured homes, aircraft, vessels, and animals.

Audit Program

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provide the assessor with additional information to make fair and accurate assessments.

In our 2001 report, we recommended the assessor develop and maintain a formal audit program. The assessor has fully implemented this recommendation.

Nonmandatory Audits

A nonmandatory audit program serves several purposes in the assessment of personal property. Besides helping to mitigate taxpayer reporting errors, a nonmandatory program also allows for the investigation and resolution of special problems uncovered during the processing of property statements.

The assessor performs nonmandatory audits when staff detects a problem with taxpayer reporting. We found no problems with the assessor's nonmandatory audit program.

Audit Quality

An audit should follow a standard format so that the auditor-appraiser may easily determine whether the property owner has correctly reported all taxable property. Audit narratives and summaries should include adequate documentation, full value calculations, reconciliation of the fixed assets totals to the general ledger and financial statements, review of asset invoices,

reconciliation between reported and audit amounts, an analysis of expense accounts, and an analysis of depreciation and obsolescence factors that may affect the value of the business property.

We found that the assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment, among other things. In all cases, the audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation.

Mandatory Audits

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more.

We found that the assessor's audit program needs significant improvement in order to comply with statutory and regulatory requirements.

RECOMMENDATION 7: Revise audit procedures by (1) timely auditing the books and records of professions, trades, or businesses pursuant to section 469 and (2) processing roll changes and escapes after audit according to section 533.

Audit the books and records of professions, trades, or businesses pursuant to section 469.

We found that the assessor is currently behind in audits of mandatory accounts. The assessor has a total of 30 mandatory audit accounts, resulting in an average annual workload of 7 audits per year.

Section 469 and Rules 192 and 193 establish the requirement to audit accounts having locally assessable trade fixtures and business tangible personal property valued at \$400,000 or more and owned, claimed, possessed, or controlled by a taxpayer engaged in a profession, trade, or business. The mandatory audit program verifies the reporting of the largest business property accounts.

By failing to complete these audits in a timely manner, the assessor may have allowed taxable property to escape assessment due to the expiration of the statute of limitations for enrolling escape assessments.

Process roll changes and escapes after audit according to section 533.

In a multiple year audit, there are often underassessments resulting in tax liabilities for some years and overassessments resulting in tax refunds in others. The assessor incorrectly offsets assessment differences and enrolls the net assessment difference in the most current year of the audit.

There is no statutory authority for offsetting underassessments and overassessments from different years. Rather, section 533 allows the offset of tax refunds with tax liabilities, not

assessments. Tax liabilities include the correct tax rate and applicable interest for the appropriate length of time. To accurately determine the correct tax liability, the proposed tax liabilities and the tax refund must be made in the correct year.

Business Property Statement Program

Section 441 requires each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more to annually file a property statement with the assessor; other persons must file a property statement if requested by the assessor. Property statements form the backbone of the business property assessment program. Several variants of the property statement address a variety of property types, including commercial, industrial, and agricultural property, vessels, and certificated aircraft.

The assessor has an efficient discovery program. Taxpayer self-reporting is the principal means of discovering assessable property. Other means of discovering assessable business property include field canvassing; reviewing fictitious business name filings, newspaper articles and advertisements, and city and county business licenses; referrals from other counties; and BOE notifications. Our review shows that the assessor's office effectively employs various methods to discover taxable business property.

The business property staff processed business property statements for the 2004-05 roll as shown below:

| CATEGORY | TOTAL COUNT | SECURED VALUES | UNSECURED VALUES | TOTAL VALUES |
|------------------------|--------------------|-----------------------|-------------------------|----------------------|
| General Business | 711 | \$55,913,959 | \$43,447,511 | \$99,361,470 |
| Agriculture | 287 | \$14,140,814 | \$717,010 | \$14,857,824 |
| Apartments | 17 | \$254,648 | \$0 | \$254,648 |
| Financial Institutions | 7 | \$492,397 | \$45,608 | \$538,005 |
| Total | 1,022 | \$70,801,818 | \$44,210,129 | \$115,011,947 |

The above table does not reflect the statements processed for vessels and aircraft.

In our review of several business property accounts, we found that staff checked for completeness, changes in control/ownership, authorized signatures, full disclosures of property based on the prior year's statement, and leased equipment disclosures. Staff also applied valuation factors and service lives consistent with prior year appraisals and consistent with detailed instructions from the assessor.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

Assessors value most machinery and equipment using business property value factors. Value factors are derived by combining price index factors (trend factors) with percent good factors. A

value indicator is obtained by multiplying a property's historical (acquisition) cost by an appropriate value factor.

Section 401.5 provides that the BOE shall issue information that promotes uniformity in appraisal practices and assessed values. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

The equipment index factors measure the annual trended value of goods (normally upward trends) over their service lives. The percent good factors are intended to reflect the average annual loss in value that commercial or industrial equipment will suffer over its service life. The factors are based on averages and represent a reasonable estimate of annual changes for the majority of business machinery and equipment.

The assessor combines the equipment index factor and the percent good factor into one factor for the valuation of older machinery and equipment. These valuation factors are integrated into the assessor's computer system.

Section 401.16 establishes that beginning with the 2003 lien date, assessors are prohibited from employing minimum percent good factors that are determined in an unsupported manner. The assessor uses minimum percent good as a component of minimum valuation factors in the valuation of older machinery and equipment. Supporting market data for minimum percent good are based on the *Marshall Valuation Service* model. The Marshall tables represent machinery and equipment salvage values as a percentage (minimum values) of historical cost. The publication states that salvage value percentages are based on "actual cases of sales and mortality to which empirical mathematical curves have been matched."

It appears that the assessor has used reliable studies, as required by section 401.16, to establish the minimum percent good component of his valuation factors for older machinery and equipment.

For the 2003-04 local assessment roll, the Lassen County Assessor's office valued secured business property for \$70,801,818 and unsecured business property for \$43,942,619, not including vessels or aircraft.

However, we disagree with the assessor's method of estimating the value of certain specialized electronic equipment.

RECOMMENDATION 8: Use Assessors' Handbook Section 581 when valuing certain types of equipment.

The assessor has adopted the California Assessors' Association (CAA) position that specific types of equipment, i. e., pagers, facsimile equipment, and photo copiers, should be valued with no consideration of the price index component, only a percent good consideration similar to computer valuations.

The assessor's use of these untrended valuation factors is not recommended in the AH 581. By using these factors, the assessor is accelerating the depreciation of equipment beyond the level suggested in the AH 581 trended tables.

Computer Valuation

In order to promote uniformity in appraisal practices and assessed values, and to comply with the requirements of section 401.5, the BOE, in AH 581, Table 6: Computer Valuation Factors, issued valuation factors for valuing computers.

We found that the assessor has adopted the BOE factors and correctly applies them in valuing computer equipment.

Leased Equipment

The business property division is responsible for the discovery, valuation, and assessment of leased equipment. This type of property is one of the more difficult to assess correctly. Common problems include difficulty in establishing taxability and taxable situs, reporting errors by lessees and lessors, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer to purchase), and double or escape assessments resulting from lessor and lessee reporting. These issues are discussed in detail in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

Taxpayers are required to report all leased equipment, i.e. taxable property in their possession but belonging to others, on the annual business property statement. On the statement, the assessor requests the name and address of the owner, the month and year of property acquisition, the acquisition cost, the location, and other relevant information.

When property is leased, both lessors and lessees should report such property on their annual property statements. At the end of such a lease, the lessee may acquire the equipment or return it to the lessor. Procedures should be in place to identify the disposition of leased equipment upon termination of a lease.

When a lessee obtains ownership and retains possession of equipment at the end of the lease, the assessor should confirm that the lessee reports the property. A cross-check of information reported by lessors and lessees verifies the accuracy of the reported information.

We found that staff understood the differences between leases and conditional sales contracts, and followed the correct appraisal and assessment procedures in the application of valuation processes. Additionally, we reviewed several files of lessors and lessees for valuation methods, completeness of reporting, tracking of equipment, correct assessee designation, leased equipment reported by state assessee(s), and correct expired lease disposition, as well as correct processing procedures.

In our 2001 survey, we recommended that the assessor not include sales tax as a component of cost when the lessee of equipment is a federal agency. The assessor has complied with this recommendation.

We found the leased equipment program to be well managed, with staff doing an excellent job in discovering, processing, tracking, valuing, determining the proper assessee, and coordinating the assessment of leased equipment.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.

The assessor currently enrolls 845 manufactured homes with an assessed value of \$17,094,250. The assessor correctly classifies manufactured homes as personal property but they are enrolled on the secured roll. Since many manufactured homes in the county are located on fee land along with sheds, garages, and other structures, most assessments also include real property values. Currently, manufactured home assessments on the roll include \$831,954 in real property.

Presently, the county has 18 manufactured home parks with approximately 200 manufactured homes located in parks. Manufactured homes set on foundation systems that conform to the provisions of Health and Safety Code section 18551 are enrolled as real property. Although the assessor does not record exact numbers of manufactured homes placed on these foundation systems, staff estimates approximately one half of newly purchased manufactured homes are set on these foundation systems. We reviewed several property records for manufactured homes on these foundation systems. The property records contained copies of the required documentation from the Department of Housing and Community Development (HCD).

Manufactured home appraisals are assigned by area. The assessor discovers new or transferred manufactured homes primarily through the HCD reports. He also reviews building permits and dealer reports of sale, as well as conducting field reviews to discover assessable manufactured homes. The assessor sends a change of ownership statement to the transferee when he discovers that a manufactured home has been sold.

We reviewed several manufactured home assessments to determine program compliance. We found the assessor's program complies with property tax laws and the assessor is proactive in finding declines in value and attempting to discover market trends in Lassen County. The assessor examines all sales yearly and has determined there is no marked change in values overall.

We found the assessor correctly applies supplemental assessments to transferred manufactured homes. He correctly exempts from assessment manufactured homes held in dealer's stock and those held or owned by financial institutions and insurance companies. In addition, the assessor uses various value guides when valuing transferred manufactured homes, rather than simply enrolling the sale price. He thereby avoids assessing site value, which may be included in the sale price.

We found the assessor's manufactured home program comprehensive and his manufactured home property files well documented. We found no problems with his manufactured home program.

Aircraft

General Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business but that are not authorized to carry passengers, mail, or freight on a commercial basis (general aircraft contrast with certificated aircraft, discussed below). Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

The assessor discovers aircraft from airport operators reporting on the Form BOE-577-B, *List of Aircraft*, and referrals from other county assessors' offices.

The Lassen County Assessor's office assessed 48 general aircraft on the 2004-05 tax roll with a total value of \$2,540,217. The aircraft are assessed using the appropriate guidelines prescribed by section 5364 and explained in Letter To Assessors (LTA) 97/03, dated January 31, 1997. The data on the annual *Aircraft Owner's Report* is inputted into the electronic *Bluebook* CD program to develop a value indicator. Sales tax is added to that value.

We have no recommendations in this area.

Historical Aircraft

Aircraft of historical significance can be exempted from taxation if they meet certain requirements. Section 220.5 defines "aircraft of historical significance" as (1) an aircraft that is an original, restored, or replica of a heavier than air, powered aircraft 35 years or older; or (2) any aircraft of a type or model of which there are fewer than five such aircraft known to exist worldwide.

The historical aircraft exemption is not automatic. Each year, the owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, paying a filing fee of \$35 upon the initial application for exemption. Along with these requirements, aircraft of historical significance are exempt only if the following conditions are met: (1) the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale; (2) the assessee does not use the aircraft for commercial purposes or general transportation; and, (3) the aircraft was available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which exemption is claimed.

For the 2004-05 assessment roll, the assessor enrolled two historical aircraft with a total valuation of \$53,289.

Historically, the assessor has received the affidavits for the exemption of these aircraft on or before the statutory deadline each year. The assessor verifies that the public display requirement is met and collects the one-time \$35 application fee with the initial filing.

We found that the assessor effectively administers the historical aircraft exemption program.

Vessels

Assessors must annually appraise all vessels at market value. The primary sources used for the discovery of assessable vessels include Department of Motor Vehicles (DMV) reports, referrals from other counties, and information provided by the vessel owners themselves.

The Lassen County Assessor assessed 276 vessels on the 2004-05 local assessment roll with a total assessed value of \$2,679,741.

The assessor uses Form BOE-576-D, *Vessel Property Statement*, to elicit information from taxpayers regarding their boats. He also properly charges section 463 penalties of ten percent for late filing or nonfiling of the *Vessel Property Statement*, when appropriate.

The auditor-appraiser and the assessor have joint responsibility for the appraisal and assessment of all vessels. A cadastral draftsman keeps track of the vessels, including logging and entering appraisal data from the certified appraisers, and maintaining archives of past vessel statements. The draftsman is not a certified appraiser and does not make actual appraisals.

Appraisals of new vessels are based on values listed in the National Automobile Dealer's Association (NADA) valuation guide. Additionally, the appraiser makes adjustments for vessel condition, motor and motor condition, and accessories, with deductions for trailers, when appropriate. The appraiser does not, however, add sales tax to the appraisal estimate before enrolling the assessed value.

For subsequent vessel assessments, the assessor annually develops a depreciation table based on a study of all vessel sales in the county in the previous year. The study is documented and appears to be representative of the local used vessel market.

RECOMMENDATION 9: Include sales or use tax as an element of value when appraising vessels.

Presently, when valuing a vessel by a valuation guide, the assessor does not add a sales tax component to the value estimate of the vessel. Assessors' Handbook Section 576, *Assessment of Vessels*, states that where a value guide is used for a comparative sales approach, sales tax, an element of value, should be added to the listed value to arrive at the full cash value for property tax purposes.

When sales tax is not added as a component of the appraised value of a vessel, an underassessment is the likely result.

Animals

The California Constitution mandates that all property is taxable unless specifically exempted by the Constitution, the laws of the United States, or, in the case of personal property, by act of the Legislature. Most animals are exempt from taxation. Pets are exempted under section 224. Many animals that are considered business inventory are exempted by sections 129 and 219, and by Rule 133.

Methods used by the Lassen County Assessor to discover taxable animals include exchange of information with other county assessors; review of newspaper articles, advertisements, telephone directories, business directories, agricultural property statements; and audits of agricultural property. Animals that are assessed are typically those used as rodeo stock, show horses, security dogs, riding stable, or pack animals remaining under the owner's direct control, and animals held for breeding purposes. Also included are any other animals not held for sale or lease or used in the production of food or fiber or feed for such animals.

The assessor annually sends Form BOE-571-F, *Agricultural Property Statement*, to those property owners involved in agriculture. Schedule B of this form requests the description and number of all taxable animals. If any registered and show horses are reported, the assessor sends Form BOE-571-F2, *Registered and Show Horses Other Than Racehorses*, to be completed as a supplemental schedule. When the forms are returned, they are forwarded to an auditor-appraiser for review and valuation of the reported property. The auditor-appraiser is careful to recognize the exempt status of animals that qualify as pets or business inventory as provided in Rule 133.

A review of the assessor's files indicated that there are approximately 15 property owners who have assessable animals located in Lassen County. We reviewed the procedures for discovering and assessing taxable animals and found the program to be well administered.

APPENDICES

A. County Property Tax Division Survey Group

Lassen County

Chief, County Property Tax Division

Mickie Stuckey

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Peter Gaffney

Supervising Property Appraiser

Survey Team Leader:

Glenn Danley

Senior Specialist Property Appraiser

Survey Team:

Dale Peterson

Senior Specialist Property Auditor-Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Ancil Aydelott

Associate Property Auditor-Appraiser

Zella Cunningham

Associate Property Appraiser

Wes Hill

Associate Property Appraiser

Bob Marr

Associate Property Appraiser

Jim McCarthy

Senior Petroleum and Mining Appraisal Engineer

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of Records; Appraisal Data Not Public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the

assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

(b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.

(c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code**75.60. Allocation for administration.**

(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6 (commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
- (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
 - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment

operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
- (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

(b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
- (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
- (8) Discovering and assessing property that has suffered a decline in value.
- (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.

(c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The survey report, the assessor's response, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

The Lassen County Assessor's response begins on the next page. The BOE has no comments on the response.

Office of Assessor

County of Lassen



KENNETH BUNCH, Assessor
Lassen County Courthouse
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Susanville, CA 96130

☎ (530) 251-8241
FAX (530) 251-8245

November 3, 2005

Ms. Mickey Stuckey, Chief
County Property Tax Division
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0062

Dear Ms. Stuckey,

Pursuant to Section 15645 of the California Government Code, I am providing my written response to the findings and recommendations in the Lassen County 2005 Assessment Survey Report. Please include them in the final report.

Your survey team performed their duties in a friendly and professional manner. The State mandated survey program provides a valuable dialogue on current assessment issues. It is my hope that future surveys covering assessor's offices will include information on staffing and funding that will convince the State to fund and increase the Property Tax Administration Program. The programs recent elimination will be detrimental to the State and all entities paying and using property tax.

This report attests to the high quality and dedication of the staff of the Lassen County Assessor's Office. Because the survey "found no significant assessment problems as defined in rule 371" Lassen County will continue to be eligible to receive recovery of certain assessment costs. The many complimentary comments in the report are appreciated.

Sincerely,


Kenneth Bunch
Lassen County Assessor

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LASSEN COUNTY

Assessor's Response to State Board of Equalization 2005 Assessment Practices Survey Report

Recommendation 1: Request that the board of supervisors revise the disaster relief ordinance to conform to the current provisions of section 170.

Assessor's Response

A request has been made to the county counsel office that will result in the revision.

Recommendation 2: Add penalty and interest as required by section 531.6 for disallowed homeowners' exemptions.

Assessor's Response

We agree. Most corrections already included the penalty. We will improve our review process.

Recommendation 3: Use only approved assessment forms.

Assessor's Response

The minor additions that were added to the forms have been removed. No one submitted the outdated form.

Recommendation 4: Review the assessments of properties surrounding those properties having assessments recently reduced for decline in value.

Assessor's Response

Staff has been reminded that this practice is consistent with our policy of discovering all properties needing to be valued under Section 51 of the Revenue and Taxation.

Recommendation 5: Establish base year values for taxable government owned properties according to BOE guidelines.

Assessor's Response

The new guidelines were used for the 2005-06 assessment roll. No significant changes were found.

Recommendation 6: Revise possessory interest assessments by (1) periodically reviewing all taxable possessory interests with stated terms of possession for declines in values required by section 51, and (2) using net income to the lesser.

Assessor's Response

The possessory interest assessments have been reviewed and, as explained to the survey team, they involve the equivalent of long term leases (unstated mutually anticipated longer terms). The airport hanger leases (which the survey team felt might need to be treated as short term Section 51 assessments) have all recently been granted new twenty year written leases by the city. The remaining assessments are grazing permits and USFS cabin sites. Any change in federal lease policies will come to the Assessor's attention prior to any needed action.

Actual rents have always been examined for non real estate services that may be provided to tenants. A new minor expense relating to processing the payments and establishing the lease will be used in the income approach. Furthermore, no over assessments were found.

Recommendation 7: Revise audit procedures by: (1) timely auditing the books and records of professions, trades , or businesses pursuant to section 469 and (2) processing roll changes and escapes after audit according to section 533.

Assessor's Response

We continue to make good progress on completing our mandatory audits. Sometimes non-mandatory audits and other priorities have hampered our efforts. The auditors on the survey team were very complimentary of the quality of our auditor-appraiser's audit reports. Budget and staffing shortages are the main problem. The States elimination of our Property Tax Administration Grant has not helped the situation improve.

Procedures have been established with our County Auditor to comply with the mandates of Section 533.

Recommendation 8: Use Assessor's Handbook Section 581 when valuing certain types of equipment.

Assessor's Response

The survey criticizes not using the States trending factors for "certain specialized electronic equipment". My legal mandate is to assess property at its current market value. I am relying on the annually published California Assessor's Associations Business Property Subcommittee recommendation for this type of property. Their opinion is based in part on a study done by Los Angeles County. The State has not provided a study to document why they appraise this equipment at a higher value.

Recommendation 9: Include sales tax as an element of value when appraising vessels.

Assessor's Response

We agree to follow the recommendation as stated in Assessor's Handbook 576.